City Council Staff Report

DATE: September 6, 2023

AGENDA ITEM NO: Consent Calendar - 3D

TO: The Honorable Mayor and City Council

FROM: Amy Lee, City Treasurer
Martha Garcia, Director of Finance

SUBJECT: 2022-2023 Annual Investment Report

RECOMMENDATION:

It is recommended that the City Council consider:

1. Adopting a Resolution authorizing the City Treasurer and City Manager to implement the City's Investment Policy for FY 2023-24;
2. Receiving and filing the 2022-23 Annual Investment Report; and
3. Taking such additional, related, action that may be desirable.

EXECUTIVE SUMMARY:

The City's Investment Policy requires an annual investment report and a statement of investment policy to be submitted to the City Council for annual review. The attached annual report shows that all investment activities during 2022-23 were conducted according to the fiscal year 2022-2023 City's Investment Policy.

The Treasury Committee is introducing and recommending adoption of the Investment Policy developed by Chandler Asset Management company.

BACKGROUND:

The City contracted with Chandler Asset Management to assist with the drafting the City's Investment Policy. This Investment Policy will better align with Government Code and industry best practices, allow for broader diversification within the total portfolio, and is expected to earn the California Municipal Treasurers Association Investment Policy Certification.

The Investment Policy includes the most recent Government Code citations as amended by Senate Bills 998 and 1489. It allows the Treasury Committee to diversify the City's portfolio while continuing to prioritize safety, liquidity and yield.

The benefits of having the Investment Policy Certified by the California Municipal Treasurers Association is verification that the policy was reviewed and certified by a professional organization within California.

Investments

All investment activities during 2022-23 were made according to the FY 2022-23 Policy. During the year, funds were invested in the Local Agency Investment Fund, LA County Pooled Investment Fund, and Certificates of Deposits.

Local Agency Investment Fund (LAIF) was created by statute in 1977. It is a pooled investment program for local agencies and special districts to participate. LAIF is managed by the State and investment securities are purchased in accordance with the Government Code Sections 16430 and 16480.4. LAIF has 2,386 participants and $36.8 billion in its portfolio. As of June 30, 2023, the City has $36.3 million invested with LAIF.

Los Angeles County Pooled Investment Fund (LACPIF) allows local agencies in the County of Los Angeles to deposit excess funds in the Los Angeles County Treasury Pool for the purpose of investment by the Treasurer and Tax Collector of the County. As of June 30, 2023, the City has $43.7 million invested with LACPIF.

Certificates of Deposits (CD) Certificates of Deposits are time deposits with banks or savings and loans. The Federal Depository Insurance Corporation (FDIC) insures each depositor up to $250,000. The City invests CDs with California State or nationally chartered financial institutions. As of June 30, 2023, the City has 33 CDs.

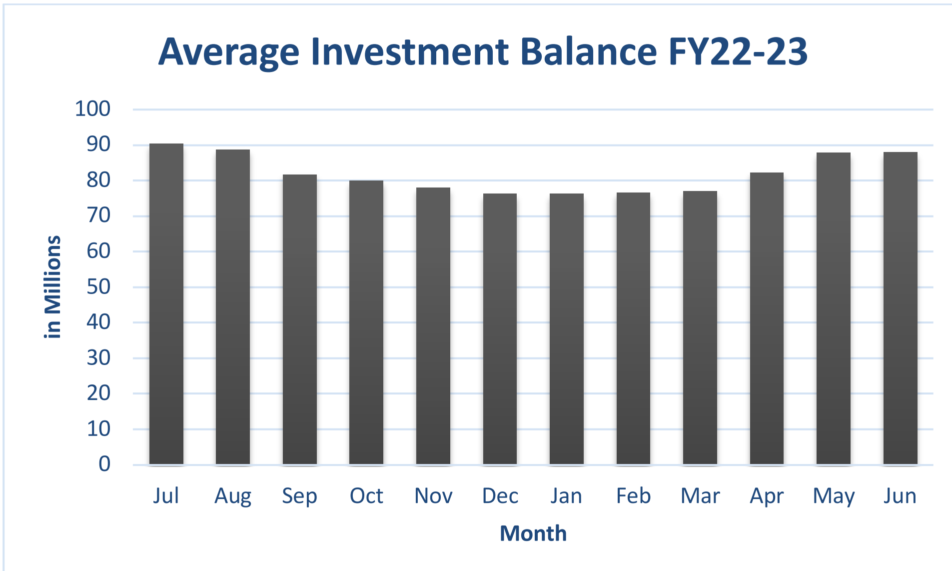
Investment Composition

The City invests its idle cash from all operating funds on a pooled basis to maximize returns. Earnings are allocated to each fund based on the average cash balance. The total investment balance for the City as of June 30, 2023 was $87,989,100.53.

Instruments	Balance	Interest Rate	Maturity
LAIF	$ 36,395,202.13	2.22%	1-day
LACPIF	43,748,898.40	2.88%	1-day
CDs	7,845,000.00	0.51% - 2.65%	2 months – 2 year
Total	$ 87,989,100.53		

Investment Balance

Timing of revenue collections, such as property tax, business licenses, and franchise tax, affects the monthly investment balance during the year. In 2022-23, monthly investment varied from $76 million to $90 million. The average balance was $82 million.



Investment Performance

The 2022-23 interest earning for the City totaled approximately $1,682,478.00 and the average yields were 2.05%. The City invested 38.50% of its funds into local government investment pools (LAIF), 52.51% into Los Angeles County Pooled Fund (LACPIF), and 8.98% into certificates of deposits, which all can be effective mechanisms for obtaining liquidity, diversified portfolios, and competitive yields. The performance from the investment in the LAIF, County pooled funds, and Certificates of Deposit have provided the City higher investment earnings in 2022-23.

Investment Policy

The City's current and proposed Investment Policy includes eighteen areas: Scope, Prudence, Objective, Delegation of Authority, Ethics and Conflicts of Interest, Authorized Financial Dealers and Institutions, Authorized and Suitable Investments, Review of Investment Portfolio, Investment Pools/Mutual Funds, Collateralization, Safekeeping and Custody, Diversification, Maximum Maturities, Internal Controls, Performance Standards, Reporting, Investment Policy Adoption and Glossary.

Conclusion

For the Fiscal Year 2023-2024, the Treasury Committee will seek permitted investment instruments according to the investment policy, and take a balanced approach consistent with the guidelines of safety, liquidity, and yield as established by the Council adopted Investment Policy.

Respectfully submitted by:

Amy Lee
City Treasurer

Prepared by:

Martha Garcia
Director of Finance

Approved by:

Inez Alvarez
Interim City Manager

Reviewed by:

Karl H. Berger
City Attorney

ATTACHMENTS:

1. Investment Policy Resolution
2. Proposed Investment Policy

ATTACHMENT 1

Investment Policy Resolution

RESOLUTION NO. 2023-R70 / SA-187

A JOINT RESOLUTION OF THE CITY OF MONTEREY PARK; THE SUCCESSOR AGENCY TO THE MONTEREY PARK REDEVELOPMENT AGENCY; THE MONTEREY PARK FINANCING AUTHORITY; THE MONTEREY PARK HOUSING AUTHORITY; AND THE GEOLOGIC HAZARD ABATEMENT DISTRICT ADOPTING AN INVESTMENT POLICY AND AUTHORIZING THE TREASURER AND CITY MANAGER TO IMPLEMENT THE POLICY.

The City Council, acting on behalf of the City of Monterey Park, the Successor Agency to the Monterey Park Redevelopment Agency, the Monterey Park Financing Authority, the Monterey Park Housing Authority and the Geologic Hazard Abatement District (collectively, "City Council") does resolve as follows:

<u>SECTION 1:</u> The City Council finds and declares as follows:

A. Government Code § 53646 allows the Treasurer or Finance Director to provide the City Council an investment policy for consideration;

B. Government Code § 53607 confirms the City Council's authority to invest or reinvest funds and, if desirable, to delegate investment authority to the Treasury Committee to implement such authority, on an annual basis; and

C. The Treasurer and Finance Director proposed that the City Council consider the Investment Policy attached as Exhibit "A," and incorporated by reference, for Fiscal Year 2023-24 ("Policy").

<u>SECTION 2:</u> After due consideration, the City Council finds that the Policy conforms with applicable law and adopts it for use during Fiscal Year 2023-24 on behalf of the City of Monterey Park and the Successor Agency to the Monterey Park Redevelopment Agency, the Monterey Park Financing Authority, the Monterey Park Housing Authority and the Geologic Hazard Abatement District (collectively, "City"). The Treasurer and City Manager, upon approval by a majority of the Treasury Committee members, is authorized to implement the Policy for this time period on the City's behalf.

<u>SECTION 3:</u> Supersession of previous investment policies does not affect any penalty, forfeiture, or liability incurred before, or precludes prosecution and imposition of penalties for any violation occurring before this Resolution's effective date. Any such superseded part will remain in full force and effect for sustaining action or prosecuting violations occurring before the effective date of this Resolution.

<u>SECTION 4:</u> The City Clerk is directed to certify the adoption of this Resolution.

<u>SECTION 5:</u> The City Manager, or designee, is authorized to implement this Resolution in accordance with applicable administrative policies and procedures that may be promulgated by the city manager.

SECTION 6: *Electronic Signatures.* Pursuant to Monterey Park Municipal Code § 3.95.020, this Resolution may be executed with electronic signatures in accordance with Government Code §16.5. Such electronic signatures will be treated in all respects as having the same effect as an original signature.

SECTION 7: This Resolution will become effective immediately upon adoption and remain effective unless superseded by a subsequent resolution.

PASSED AND ADOPTED this 6th day of September 2023

Jose Sanchez, Mayor

ATTEST:

Maychelle Yee, City Clerk

APPROVED AS TO FORM:

Karl H. Berger, City Attorney

State of California)
County of Los Angeles) §.
City of Monterey Park)

I, Maychelle Yee, City Clerk of the City of Monterey Park, California, do hereby certify that the foregoing Resolution No. 2023-R70 / SA-187 was duly and regularly adopted by the City Council of the City of Monterey Park at a regular meeting held on the 6th day of September, 2023, by the following vote:

Ayes:	Council Members:	Lo, Yiu, Ngo, Wong, Sanchez
Noes:	Council Members:	None
Absent:	Council Members:	None
Abstain:	Council Members:	None
Recusal:	Council Members:	None

Dated this 6th day of September, 2023.

Maychelle Yee, City Clerk
Monterey Park, California

ATTACHMENT 2

Proposed Investment Policy

City of Monterey Park

Investment Policy

September 2023

City of Monterey Park

Investment Policy

Adopted September 6, 2023

Contents

I. INTRODUCTION

The purpose of this investment policy is to identify various policies and procedures that will foster a prudent and systematic investment program designed to seek the City of Monterey Park's objectives of safety, liquidity and return on investment through a diversified investment portfolio. This policy also serves to organize and formalize the City's investment-related activities, while complying with all applicable statutes governing the investment of public funds. This policy is written to incorporate industry best practices and recommendations from sources such as the Government Finance Officers Association (GFOA), California Municipal Treasurers Association (CMTA), California Debt and Investment Advisory Commission (CDIAC) and the Association of Public Treasurers (APT).

This investment policy was endorsed and adopted by the City Council and is effective as of the 16th day of August 2023, and replaces any previous versions.

II. SCOPE

This policy covers all funds and investment activities under the direct authority of the City, as set forth in Government Code Sections 53600, *et seq*., with the following exceptions:

- Proceeds of debt issuance must be invested in accordance with the City's general investment philosophy as set forth in this policy; however, such proceeds are to be invested pursuant to the permitted investment provisions of their specific bond indentures.

- Any other funds specifically exempted by the City Council.

POOLING OF FUNDS
Except for cash in certain restricted and special funds, the City will consolidate cash and reserve balances from all funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

III. PRUDENCE

Pursuant to Government Code Section 53600.3, all persons authorized to make investment decisions on behalf of the City are trustees and therefore fiduciaries subject to the *Prudent Investor Standard*:

> "…all governing bodies of local agencies or persons authorized to make investment decisions on behalf of those local agencies investing public funds pursuant to this chapter are trustees and therefore fiduciaries subject to the prudent investor standard. When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the

general economic conditions and the anticipated needs of the Agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the Agency. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law."

The Treasurer, Director of Finance, and other authorized persons responsible for managing City funds acting in accordance with written procedures and this investment policy and exercising due diligence are relieved of personal liability for an individual security's credit risk or market price changes provided that the Treasurer, Director of Finance, or other authorized persons acted in good faith for investment decisions. Deviations from expectations of a security's credit or market risk should be reported to the governing body in a timely fashion and appropriate action should be taken to control adverse developments.

IV. OBJECTIVES

The City's overall investment program must be designed and managed with a degree of professionalism worthy of the public trust. The overriding objectives of the program are to preserve principal, provide sufficient liquidity, and manage investment risks, while seeking a market-rate of return. Criteria for selecting investments and the order of priority are:

- **SAFETY.** Safety of principal is the foremost objective of the investment program. Investments will be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, the City will diversify its investments by investing funds among a variety of securities with independent returns.

- **LIQUIDITY.** The investment portfolio will remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated.

- **RETURN ON INVESTMENTS.** The City's investment portfolio will be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints for safety and liquidity needs.

V. DELEGATION OF AUTHORITY

Authority to manage the City's investment program is derived from Government Code Sections 41006 and 53600, *et seq.*

The City Council is responsible for the management of the City's funds, including the administration of this investment policy. Management responsibility for the cash management of the City's funds is delegated to the Director of Finance. The Treasurer may, but it's not required to, opine regarding the prudence of such management. Any such opinion should be in writing and directed to the City Council.

The Director of Finance will be responsible for all transactions undertaken as established in the Investment Procedures Manual prepared by the Treasury Committee and controls to regulate the activities of subordinate officials and employees. Such procedures will include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures promulgated by a Treasury Committee, which at a minimum, must consist of the Treasurer, City Manager and Director of Finance.

The City may engage the services of one or more external investment advisers, who are registered under the Investment Advisers Act of 1940, to assist in the management of the City's investment portfolio in a manner consistent with the City's objectives. External investment advisers may be granted discretion to purchase and sell investment securities in accordance with this investment policy.

The City's overall investment program must be designed and managed with a degree of professionalism that is worthy of the public trust. The City Council recognizes that in a diversified portfolio, occasional measured losses may be inevitable and must be considered within the context of the overall portfolio's return and the cash flow requirements of the City.

VI. ETHICS AND CONFLICTS OF INTEREST

All participants in the investment process act as custodians of the public trust. Investment officials recognize that the investment portfolio is subject to public review and evaluation. Consequently, employees and officials involved in the investment process must refrain from personal business activity that could create a conflict of interest or the appearance of a conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

Employees and investment officials must disclose any material interests in financial institutions with which they conduct business, and further disclose any large personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers must refrain from undertaking any personal investment transactions with the same individual with whom business is conducted on behalf of the City.

VII. INTERNAL CONTROLS

The Director of Finance is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the entity are protected from loss, theft or misuse. The internal control structure must be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Periodically, as deemed appropriate by the City Council, an independent analysis by an external auditor may be conducted to review internal controls, account activity and compliance with policies and procedures.

VIII. AUTHORIZED FINANCIAL INSTITUTIONS, DEPOSITORIES, AND BROKER/DEALERS

To the extent practicable, the Director of Finance must endeavor to complete investment transactions using a competitive bid process whenever possible. The Treasury Committee will determine which financial institutions are authorized to provide investment services to the City. It is the City's policy to purchase securities only from authorized institutions and firms.

The Director of Finance must ide maintain procedures for establishing a list of authorized broker/dealers and financial institutions which are approved for investment purposes that are selected through a process of due diligence as determined by the City. Due inquiry will determine whether such authorized broker/dealers, and the individuals covering the City are reputable and trustworthy, knowledgeable and experienced in Public Agency investing and able to meet all of their financial obligations. These institutions may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15c3-1 (uniform net capital rule).

In accordance with Government Code Section 53601.5, institutions eligible to transact investment business with the City include:

- Institutions licensed by the state as a broker-dealer.
- Institutions that are members of a federally regulated securities exchange.
- Primary government dealers as designated by the Federal Reserve Bank and non-primary government dealers.
- Nationally or state-chartered banks.
- The Federal Reserve Bank.
- Direct issuers of securities eligible for purchase.

Selection of financial institutions and broker/dealers authorized to engage in transactions will be at the sole discretion of the City, except where the City utilizes an external investment adviser in which case the City may rely on the adviser for selection.

All financial institutions which desire to become qualified bidders for investment transactions (and which are not dealing only with the investment adviser) must supply the Director of Finance with audited financials and a statement certifying that the institution has reviewed Government Code Sections 53600, *et seq*. and the City's investment policy. The Director of Finance will conduct an annual review of the financial condition and registrations of such qualified bidders.

Public deposits will be made only in qualified public depositories as established by California law. Deposits will be insured by the Federal Deposit Insurance Corporation, or, to the extent the amount exceeds the insured maximum, will be collateralized in accordance with California law.

Selection of broker/dealers used by an external investment adviser retained by the City will be at the sole discretion of the investment adviser identified by the City Council. Where possible, transactions with broker/dealers will be selected on a competitive basis and their bid or offering prices will be provided via trade ticket, a record of all the terms, conditions, and basic information of a trade agreement, by the investment advisor. If there is no other readily available competitive offering, best efforts will be made to document quotations for comparable or alternative securities. When purchasing original issue instrumentality securities, no competitive offerings will be required as all dealers in the selling group offer those securities at the same original issue price.

IX. Authorized Investments

The City's investments are governed by Government Code Sections 53600, *et seq*. Within the investments permitted by the Government Code, the City seeks to further restrict eligible investments to the guidelines listed below. In the event a discrepancy is found between this policy and the Government Code, the more restrictive parameters will take precedence. Percentage holding limits listed in this section apply at the time the security is purchased.

Any investment currently held at the time this policy is adopted which does not meet the new policy guidelines can be held until maturity and is exempt from this policy. At the time of the investment's maturity or liquidation, such funds must be reinvested only as provided in this policy.

An appropriate risk level determined by the Government Code must be maintained by primarily purchasing securities that are of high quality, liquid, and marketable. The portfolio must be diversified by security type and institution to avoid incurring unreasonable and avoidable risks regarding specific security types or individual issuers.

1. **Municipal Securities** include obligations of the City, the State of California and any local agency within the State of California, provided that:

   - The securities are rated in a rating category of "A" or its equivalent or better by at least one nationally recognized statistical rating organization ("NRSRO").
   - No more than 5% of the portfolio may be invested in any single issuer.
   - No more than 30% of the portfolio may be in Municipal Securities.
   - The maximum maturity does not exceed five (5) years.

2. **Municipal Securities (Registered treasury notes or bonds)** of any of the other 49 states in addition to California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 states, in addition to California.

   - The securities are rated in a rating category of "A" or its equivalent or better by at least one nationally recognized statistical rating organization ("NRSRO").
   - No more than 5% of the portfolio may be invested in any single issuer.
   - No more than 30% of the portfolio may be in Municipal Securities.

- The maximum maturity does not exceed five (5) years.

3. **U.S. Treasuries** and other government obligations for which the full faith and credit of the United States are pledged for the payment of principal and interest. There are no limits on the dollar amount or percentage that the City may invest in U.S. Treasuries, provided that:

   - The maximum maturity is five (5) years.

4. **Federal Agencies** or United States Government-Sponsored Enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises. There are no limits on the dollar amount or percentage that the City may invest in Federal Agency or Government-Sponsored Enterprises (GSEs), provided that:

   - No more than 30% of the portfolio may be invested in any single Agency/GSE issuer.
   - The maximum maturity does not exceed five (5) years.
   - The maximum percent of callable agency securities in the portfolio will be 20%.

5. **Banker's Acceptances,** provided that**:**

   - They are issued by institutions which have short-term debt obligations rated "A-1" or its equivalent or better by at least one NRSRO; or long-term debt obligations which are rated in a rating category of "A" or its equivalent or better by at least one NRSRO.
   - No more than 40% of the portfolio may be invested in Banker's Acceptances.
   - No more than 5% of the portfolio may be invested in any single issuer.
   - The maximum maturity does not exceed 180 days.

6. **Commercial Paper**, provided that the securities are issued by an entity that meets all of the following conditions in either paragraph (a) or (b) and other requirements specified below:

   a. **Securities** issued by corporations:

      (i) A corporation organized and operating in the United States with assets more than $500 million.
      (ii) The securities are rated "A-1" or its equivalent or better by at least one NRSRO.
      (iii) If the issuer has other debt obligations, they must be rated in a rating category of "A" or its equivalent or better by at least one NRSRO.

   b. **Securities** issued by other entities:

      (i) The issuer is organized within the United States as a special purpose corporation, trust, or limited liability company.

(ii) The securities must have program-wide credit enhancements including, but not limited to, overcollateralization, letters of credit, or a surety bond.
(iii)The securities are rated "A-1" or its equivalent or better by at least one NRSRO.

- No more than 10% of the outstanding commercial paper of any single issuer.
- No more than 25% of the City's investment assets under management may be invested in Commercial Paper. Under a provision sunsetting on January 1, 2026, no more than 40% of the portfolio may be invested in Commercial Paper if the City's investment assets under management are greater than $100,000,000.
- No more than 5% of the portfolio may be invested in any single issuer.
- The maximum maturity does not exceed 270 days.

7. **NEGOTIABLE CERTIFICATES OF DEPOSIT (NCDs)**, issued by a nationally or state-chartered bank, a savings association or a federal association, a state or federal credit union, or by a federally licensed or state-licensed branch of a foreign bank, provided that:

- The amount of the NCD insured up to the FDIC limit does not require any credit ratings.
- Any amount above the FDIC insured limit must be issued by institutions which have short-term debt obligations rated "A-1" or its equivalent or better by at least one NRSRO; or long-term obligations rated in a rating category of "A" or its equivalent or better by at least one NRSRO.
- No more than 30% of the total portfolio may be invested in NCDs (combined with CDARS).
- No more than 5% of the portfolio may be invested in any single issuer.
- The maximum maturity does not exceed five (5) years.

8. **FEDERALLY INSURED TIME DEPOSITS** (Non-Negotiable Certificates of Deposit) in state or federally chartered banks, savings and loans, or credit unions, provided that:

- The amount per institution is limited to the maximum covered under federal insurance.
- No more than 20% of the portfolio will be invested in a combination of federally insured and collateralized time deposits.
- The maximum maturity does not exceed five (5) years.

9. **COLLATERALIZED TIME DEPOSITS** (Non-Negotiable Certificates of Deposit) in state or federally chartered banks, savings and loans, or credit unions in excess of insured amounts which are fully collateralized with securities in accordance with California law, provided that:

- No more than 20% of the portfolio will be invested in a combination of federally insured and collateralized time deposits.
- The maximum maturity does not exceed five (5) years.

10. **CERTIFICATE OF DEPOSIT PLACEMENT SERVICE (CDARS)**, provided that:

- No more than 30% of the total portfolio may be invested in a combination of Certificates of Deposit, including CDARS.
- The maximum maturity does not exceed five (5) years.

11. **COLLATERALIZED BANK DEPOSITS.** City's deposits with financial institutions will be collateralized with pledged securities per Government Code Section 53651. There are no limits on the dollar amount or percentage that the City may invest in collateralized bank deposits.

12. **REPURCHASE AGREEMENTS** collateralized with securities authorized under the Government Code, maintained at a level of at least 102% of the market value of the Repurchase Agreement. There are no limits on the dollar amount or percentage that the City may invest, provided that:

    - Securities used as collateral for Repurchase Agreements will be delivered to an acceptable third-party custodian.
    - Repurchase Agreements are subject to a Master Repurchase Agreement between the City and the provider of the repurchase agreement. The Master Repurchase Agreement will be substantially in the form developed by the Securities Industry and Financial Markets Association (SIFMA).
    - The maximum maturity does not exceed one (1) year.

13. **STATE OF CALIFORNIA LOCAL AGENCY INVESTMENT FUND (LAIF)**, provided that:

    - The City may invest up to the maximum amount permitted by LAIF.
    - LAIF's investments in instruments prohibited by or not specified in the City's policy do not exclude the investment in LAIF itself from the City's list of allowable investments.

14. **LOCAL GOVERNMENT INVESTMENT POOLS**

    - Other LGIPs permitted by client.
    - There is no issuer limitation for Local Government Investment Pools

15. **CORPORATE MEDIUM TERM NOTES (MTNS)**, provided that:

    - The issuer is a corporation organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States.
    - The securities are rated in a rating category of "A" or its equivalent or better by at least one NRSRO.
    - No more than 30% of the total portfolio may be invested in MTNs.
    - No more than 5% of the portfolio may be invested in any single issuer.
    - The maximum maturity does not exceed five (5) years.

16. **ASSET-BACKED, MORTGAGE-BACKED, MORTGAGE PASS-THROUGH SECURITIES, AND COLLATERALIZED MORTGAGE OBLIGATIONS FROM ISSUERS NOT DEFINED IN**

SECTIONS 3 AND 4 OF THE AUTHORIZED INVESTMENTS SECTION OF THIS POLICY, provided that:

- The securities are rated in a rating category of "AA" or its equivalent or better by a NRSRO.
- No more than 20% of the total portfolio may be invested in these securities.
- No more than 5% of the portfolio may be invested in any single Asset-Backed or Commercial Mortgage security issuer.
- The maximum legal final maturity does not exceed five (5) years.

17. **MUTUAL FUNDS AND MONEY MARKET MUTUAL FUNDS** that are registered with the Securities and Exchange Commission under the Investment Company Act of 1940, provided that:

    a. **MUTUAL FUNDS** that invest in the securities and obligations as authorized under Government Code Section 53601 (a) to (k) and (m) to (q), inclusive, and that meet either of the following criteria:

        (i) Attained the highest ranking or the highest letter and numerical rating provided by not less than two (2) NRSROs; or
        (ii) Have retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience investing in the securities and obligations authorized by Government Code Section 53601 and with assets under management in excess of $500 million.

    - No more than 10% of the total portfolio may be invested in shares of any one mutual fund.

    b. **MONEY MARKET MUTUAL FUNDS** registered with the Securities and Exchange Commission under the Investment Company Act of 1940 and issued by diversified management companies and meet either of the following criteria:

        (i) Have attained the highest ranking or the highest letter and numerical rating provided by not less than two (2) NRSROs; or
        (ii) Have retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds with assets under management in excess of $500 million.

    - No more than 20% of the total portfolio may be invested in the shares of any one Money Market Mutual Fund.

    c. No more than 20% of the total portfolio may be invested in these securities.

18. **SUPRANATIONALS**, provided that:

- Issues are US dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank.
- The securities are rated in a rating category of "AA" or its equivalent or better by a NRSRO.
- No more than 30% of the total portfolio may be invested in these securities.
- No more than 10% of the portfolio may be invested in any single issuer.
- The maximum maturity does not exceed five (5) years.

X. PROHIBITED INVESTMENT VEHICLES AND PRACTICES

- California law notwithstanding, any investments not specifically described in this policy are prohibited including, without limitation, futures and options.
- In accordance with Government Code Section 53601.6, investment in inverse floaters, range notes, or mortgage derived interest-only strips is prohibited.
- Investment in any security that could result in a zero interest accrual if held to maturity is prohibited. Under a provision sunsetting on January 1, 2026, securities backed by the U.S. Government that could result in a zero- or negative-interest accrual if held to maturity are permitted.
- Trading securities for the sole purpose of speculating on the future direction of interest rates is prohibited.
- Purchasing or selling securities on margin is prohibited.
- The use of reverse repurchase agreements, securities lending or any other form of borrowing or leverage is prohibited.
- The purchase of foreign currency denominated securities is prohibited.
- Agencies that are not Qualified Institutional Buyers (QIB) as defined by the Securities and Exchange Commission are prohibited from purchasing Private Placement Securities. The SEC defines a QIB as having at least $100,000,000 in securities owned and invested.
- The purchase of a security with a forward settlement date exceeding 45 days from the time of the investment is prohibited.

XI. INVESTMENT POOLS/MUTUAL FUNDS

The City must conduct a thorough investigation of any pool or mutual fund before making an investment, and on a continual basis thereafter. The Treasury Committee must develop a questionnaire which will answer the following general questions:

- A description of eligible investment securities, and a written statement of investment policy and objectives.
- A description of interest calculations and how it is distributed, and how gains and losses are treated.
- A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced and the program audited.

- A description of who may invest in the program, how often, what size deposit and withdrawal are allowed.
- A schedule for receiving statements and portfolio listings.
- Are reserves, retained earnings, etc. utilized by the pool/fund?
- A fee schedule, and when and how is it assessed.
- Is the pool/fund eligible for bond proceeds and/or will it accept such proceeds?

XII. COLLATERALIZATION

CERTIFICATES OF DEPOSIT (CDS). The City requires any commercial bank or savings and loan association to deposit eligible securities with an agency of a depository approved by the State Treasurer's Office which regulates banks in California. [WHAT IS THIS?] to secure any uninsured portion of a Non-Negotiable Certificate of Deposit. The value of eligible securities as defined pursuant to Government Code Section 53651, pledged against a Certificate of Deposit must be equal to 150% of the face value of the CD if the securities are classified as mortgages and 110% of the face value of the CD for all other classes of security.

COLLATERALIZATION OF BANK DEPOSITS. This is the process by which a bank or financial institution pledges securities, or other deposits for the purpose of securing repayment of deposited funds. The City requires any bank or financial institution to comply with the collateralization criteria defined in Government Code Section 53651.

REPURCHASE AGREEMENTS. The City requires that Repurchase Agreements be collateralized only by securities authorized in accordance with the Government Code:

- The securities which collateralize the repurchase agreement shall be priced at Market Value, including any Accrued Interest plus a margin. The Market Value of the securities that underlie a repurchase agreement shall be valued at 102% or greater of the funds borrowed against those securities.
- Financial institutions shall mark the value of the collateral to market at least monthly and increase or decrease the collateral to satisfy the ratio requirement described above.
- The City must receive monthly statements of collateral.

XIII. DELIVERY, SAFEKEEPING AND CUSTODY

DELIVERY-VS.-PAYMENT (DVP). All investment transactions must be conducted on a delivery-versus-payment basis.

SAFEKEEPING AND CUSTODY. To protect against potential losses due to failure of individual securities dealers, and to enhance access to securities, interest payments and maturity proceeds, all cash and securities in the City's portfolio must be held in safekeeping in the City's name by a third-party custodian, acting as agent for the City under the terms of a custody agreement executed by the bank and the City. All investment transactions will require a safekeeping receipt or acknowledgment generated from the trade. A monthly report will be received by the City from the custodian listing all securities held in safekeeping with current market data and other information.

The only exceptions to the foregoing shall be depository accounts and securities purchases made with: (i) local government investment pools; (ii) time certificates of deposit, and, (iii) mutual funds and money market mutual funds, since these securities are not deliverable.

XIV. MAXIMUM MATURITY

To the extent possible, investments must be matched with anticipated cash flow requirements and known future liabilities.

The City will not invest in securities maturing more than five (5) years from the date of trade settlement, unless the City Council has by resolution or minute order granted authority to make such an investment.

XV. RISK MANAGEMENT AND DIVERSIFICATION

MITIGATING CREDIT RISK IN THE PORTFOLIO

Credit risk is the risk that a security or a portfolio will lose some or all its value due to a real or perceived change in the ability of the issuer to repay its debt. The City will mitigate credit risk by adopting the following strategies:

- The diversification requirements included in the "Authorized Investments" section of this policy are designed to mitigate credit risk in the portfolio.

- No more than 5% of the total portfolio may be deposited with or invested in securities issued by any single issuer unless otherwise specified in this policy.

- The City may elect to sell a security before its maturity and record a capital gain or loss in order to manage the quality, liquidity or yield of the portfolio in response to market conditions or City's risk preferences.

- If a security owned by the City is downgraded to a level below the requirements of this policy, making the security ineligible for additional purchases, the following steps will be taken:

  - Any actions taken related to the downgrade by the investment adviser will be communicated to the Treasury Committee in a timely manner.

  - If a decision is made to retain the security, the credit situation will be monitored and reported to the City Council by the Treasurer.

MITIGATING MARKET RISK IN THE PORTFOLIO

Market risk is the risk that the portfolio value will fluctuate due to changes in the general level of interest rates. The City recognizes that, over time, longer-term portfolios have the potential to achieve higher returns. On the other hand, longer-term portfolios have higher volatility of return. The City will mitigate market risk by providing adequate liquidity for short-term cash needs, and by making longer-term investments only with funds that are not needed for current cash flow purposes.

The City further recognizes that certain types of securities, including variable rate securities, securities with principal paydowns before maturity, and securities with embedded options, will affect the market risk profile of the portfolio differently in different interest rate environments. The City, therefore, adopts the following strategies to control and mitigate its exposure to market risk:

- The City will maintain a minimum of six months of budgeted operating expenditures in short term investments to provide sufficient liquidity for expected disbursements.
- The maximum stated final maturity of individual securities in the portfolio will be five (5) years, except as otherwise stated in this policy.

- The duration of the portfolio will generally be approximately equal to the duration (typically, plus or minus 20%) of a Market Benchmark, an index selected by the City based on the City's investment objectives, constraints and risk tolerances.

XVI. Review of Investment Portfolio

The Treasurer and Director of Finance must periodically, but no less than quarterly, review the portfolio to identify investments that do not comply with this investment policy and establish protocols for reporting major and critical incidences of noncompliance to the City Council.

XVII. Performance Evaluation

The investment portfolio shall be designed to attain a market-average rate of return throughout budgetary and economic cycles, taking into account the City's risk constraints, the cash flow characteristics of the portfolio, and state and local laws, ordinances or resolutions that restrict investments.

The Treasurer and Director of Finance must monitor and evaluate the portfolio's performance relative to the chosen market benchmark(s), which will be included in the Treasurer and Director of Finance's quarterly report. The Treasurer and Director of Finance shall select an appropriate, readily available index to use as a market benchmark.

XVIII. Reporting

Monthly Reports

Monthly transaction reports will be submitted by the Treasurer to the City Council within 30 days of the end of the reporting period in accordance with Government Code Section 53607.

Quarterly Reports

The Treasurer will submit a quarterly investment report to the City Council which provides full disclosure of the City's investment activities within 45 days after the end of the quarter. These reports will disclose, at a minimum, the following information about the City's portfolio:

1. An asset listing showing par value, cost and independent third-party fair market value of each security as of the date of the report, the source of the valuation, type of investment, issuer, maturity date and interest rate.

2. Transactions for the period.

3. A description of the funds, investments and programs (including lending programs) managed by contracted parties (i.e. LAIF; investment pools, outside money managers and securities lending agents)

4. A one-page summary report that shows:
   a. Average maturity of the portfolio and modified duration of the portfolio;
   b. Maturity distribution of the portfolio;
   c. Percentage of the portfolio represented by each investment category;
   d. Average portfolio credit quality; and,
   e. Time-weighted total rate of return for the portfolio for the prior one month, three months, twelve months and since inception compared to the City's market benchmark returns for the same periods;

5. A statement of compliance with investment policy, including a schedule of any transactions or holdings which do not comply with this policy or with the Government Code, including a justification for their presence in the portfolio and a timetable for resolution.

6. A statement that the City has adequate funds to meet its cash flow requirements for the next six months.

ANNUAL REPORTS

A comprehensive annual report will be presented to the City Council by the Treasurer. This report will include comparisons of the City's return to the market benchmark return, suggest policies and improvements that might enhance the investment program, and will include an investment plan for the coming year.

XIX. REVIEW OF INVESTMENT POLICY

The investment policy will be reviewed and adopted at least annually within 120 days of the end of the fiscal year, to ensure its consistency with the overall objectives of preservation of principal, liquidity and return, and its relevance to current law and financial and economic trends.

Any recommended modifications or amendments must be presented by the Director of Finance to the City Council for its consideration and potential adoption.

GLOSSARY OF INVESTMENT TERMS

AGENCIES. Shorthand market terminology for any obligation issued by *a government-sponsored entity (GSE),* or a *federally related institution*. Most obligations of GSEs are not guaranteed by the full faith and credit of the US government. Examples are:

FFCB. The Federal Farm Credit Bank System provides credit and liquidity in the agricultural industry. FFCB issues discount notes and bonds.

FHLB. The Federal Home Loan Bank provides credit and liquidity in the housing market. FHLB issues discount notes and bonds.

FHLMC. Like FHLB, the Federal Home Loan Mortgage Corporation provides credit and liquidity in the housing market. FHLMC, also called "FreddieMac" issues discount notes, bonds and mortgage pass-through securities.

FNMA. Like FHLB and FreddieMac, the Federal National Mortgage Association was established to provide credit and liquidity in the housing market. FNMA, also known as "FannieMae," issues discount notes, bonds and mortgage pass-through securities.

GNMA. The Government National Mortgage Association, known as "GinnieMae," issues mortgage pass-through securities, which are guaranteed by the full faith and credit of the US Government.

PEFCO. The Private Export Funding Corporation assists exporters. Obligations of PEFCO are not guaranteed by the full faith and credit of the US government.

TVA. The Tennessee Valley Authority provides flood control and power and promotes development in portions of the Tennessee, Ohio, and Mississippi River valleys. TVA currently issues discount notes and bonds.

ASSET BACKED SECURITIES. Securities supported by pools of installment loans or leases or by pools of revolving lines of credit.

AVERAGE LIFE. In mortgage-related investments, including CMOs, the average time to expected receipt of principal payments, weighted by the amount of principal expected.

BANKER'S ACCEPTANCE. A money market instrument created to facilitate international trade transactions. It is highly liquid and safe because the risk of the trade transaction is transferred to the bank which "accepts" the obligation to pay the investor.

BENCHMARK. A comparison security or portfolio. A performance benchmark is a partial market index, which reflects the mix of securities allowed under a specific investment policy.

BROKER. A broker brings buyers and sellers together for a transaction for which the broker receives a commission. A broker does not sell securities from their own position.

CALLABLE. A callable security gives the issuer the option to call it from the investor prior to its maturity. The main cause of a call is a decline in interest rates. If interest rates decline, the issuer will likely call its current securities and reissue them at a lower rate of interest.

CERTIFICATE OF DEPOSIT (CD). A time deposit with a specific maturity evidenced by a certificate.

CERTIFICATE OF DEPOSIT ACCOUNT REGISTRY SYSTEM (CDARS). A private placement service that allows local agencies to purchase more than $250,000 in CDs from a single financial institution (must be a participating institution of CDARS) while still maintaining FDIC insurance coverage. CDARS is currently the only entity providing this service. CDARS facilitates the trading of deposits between the California institution and other participating institutions in amounts that are less than $250,000 each, so that FDIC coverage is maintained.

COLLATERAL. Securities or cash pledged by a borrower to secure repayment of a loan or repurchase agreement. Also, securities pledged by a financial institution to secure deposits of public monies.

COLLATERALIZED BANK DEPOSIT. A bank deposit that is collateralized at least 100% (principal plus interest to maturity). The deposit is collateralized using assets set aside by the issuer such as Treasury securities or other qualified collateral to secure the deposit in excess of the limit covered by the Federal Deposit Insurance Corporation.

COLLATERALIZED MORTGAGE OBLIGATIONS (CMO). Classes of bonds that redistribute the cash flows of mortgage securities (and whole loans) to create securities that have different levels of prepayment risk, as compared to the underlying mortgage securities.

COLLATERALIZED TIME DEPOSIT. Time deposits that are collateralized at least 100% (principal plus interest to maturity). These instruments are collateralized using assets set aside by the issuer such as Treasury securities or other qualified collateral to secure the deposit in excess of the limit covered by the Federal Deposit Insurance Corporation.

COMMERCIAL PAPER. The short-term unsecured debt of corporations.

COUPON. The rate of return at which interest is paid on a bond.

CREDIT RISK. The risk that principal and/or interest on an investment will not be paid in a timely manner due to changes in the condition of the issuer.

DEALER. A dealer acts as a principal in security transactions, selling securities from and buying securities for their own position.

DEBENTURE. A bond secured only by the general credit of the issuer.

DELIVERY VS. PAYMENT (DVP). A securities industry procedure whereby payment for a security must be made at the time the security is delivered to the purchaser's agent.

DERIVATIVE. Any security that has principal and/or interest payments which are subject to uncertainty (but not for reasons of default or credit risk) as to timing and/or amount, or any security which represents a component of another security which has been separated from other components ("Stripped" coupons and principal). A derivative is also defined as a financial instrument the value of which is totally or partially derived from the value of another instrument, interest rate, or index.

DISCOUNT. The difference between the par value of a bond and the cost of the bond, when the cost is below par. Some short-term securities, such as T-bills and banker's acceptances, are known as discount securities. They sell at a discount from par and return the par value to the investor at maturity without additional interest. Other securities, which have fixed coupons, trade at a discount when the coupon rate is lower than the current market rate for securities of that maturity and/or quality.

DIVERSIFICATION. Dividing investment funds among a variety of investments to avoid excessive exposure to any one source of risk.

DURATION. The weighted average time to maturity of a bond where the weights are the present values of the future cash flows. Duration measures the price sensitivity of a security to changes interest rates.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC). The Federal Deposit Insurance Corporation (FDIC) is an independent federal agency insuring deposits in U.S. banks and thrifts in the event of bank failures. The FDIC was created in 1933 to maintain public confidence and encourage stability in the financial system through the promotion of sound banking practices.

FEDERALLY INSURED TIME DEPOSIT. A time deposit is an interest-bearing bank deposit account that has a specified date of maturity, such as a certificate of deposit (CD). These deposits are limited to funds insured in accordance with FDIC insurance deposit limits.

Leverage. Borrowing funds in order to invest in securities that have the potential to pay earnings at a rate higher than the cost of borrowing.

Liquidity. The speed and ease with which an asset can be converted to cash.

Local Agency Investment Fund (LAIF). A voluntary investment fund open to government entities and certain non-profit organizations in California that is managed by the State Treasurer's Office.

Local Government Investment Pool. Investment pools that range from the State Treasurer's Office Local Agency Investment Fund (LAIF) to county pools, to Joint Powers Authorities (JPAs). These funds are not subject to the same SEC rules applicable to money market mutual funds.

Make Whole Call. A type of call provision on a bond that allows the issuer to pay off the remaining debt early. Unlike a call option, with a make whole call provision, the issuer makes a lump sum payment that equals the net present value (NPV) of future coupon payments that will not be paid because of the call. With this type of call, an investor is compensated, or "made whole."

Margin. The difference between the market value of a security and the loan a broker makes using that security as collateral.

Market Risk. The risk that the value of securities will fluctuate with changes in overall market conditions or interest rates.

Market Value. The price at which a security can be traded.

Maturity. The final date upon which the principal of a security becomes due and payable. The investment's term or remaining maturity is measured from the settlement date to final maturity.

Medium Term Notes. Unsecured, investment-grade senior debt securities of major corporations which are sold in relatively small amounts on either a continuous or an intermittent basis. MTNs are highly flexible debt instruments that can be structured to respond to market opportunities or to investor preferences.

Modified Duration. The percent change in price for a 100-basis point change in yields. Modified duration is the best single measure of a portfolio's or security's exposure to market risk.

Money Market. The market in which short-term debt instruments (T-bills, discount notes, commercial paper, and banker's acceptances) are issued and traded.

Money Market Mutual Fund. A mutual fund that invests exclusively in short-term securities. Examples of investments in money market funds are certificates of deposit and U.S. Treasury securities. Money market funds attempt to keep their net asset values at $1 per share.

Mortgage Pass-Through Securities. A securitized participation in the interest and principal cash flows from a specified pool of mortgages. Principal and interest payments made on the mortgages are passed through to the holder of the security.

Municipal Securities. Securities issued by state and local agencies to finance capital and operating expenses.

Mutual Fund. An entity which pools the funds of investors and invests those funds in a set of securities which is specifically defined in the fund's prospectus. Mutual funds can be invested in various types of domestic and/or international stocks, bonds, and money market instruments, as set forth in the individual fund's prospectus. For most large, institutional investors, the costs associated with investing in mutual funds are higher than the investor can obtain through an individually managed portfolio.

Nationally Recognized Statistical Rating Organization (NRSRO).

A credit rating agency that the Securities and Exchange Commission in the United States uses for regulatory purposes. Credit rating agencies provide assessments of an investment's risk. The issuers of investments, especially debt securities, pay credit rating agencies to provide them with ratings. The three most prominent NRSROs are Fitch, S&P, and Moody's.

NEGOTIABLE CERTIFICATE OF DEPOSIT (CD). A short-term debt instrument that pays interest and is issued by a bank, savings or federal association, state or federal credit union, or state-licensed branch of a foreign bank. Negotiable CDs are traded in a secondary market.

PRIMARY DEALER. A financial institution (1) that is a trading counterparty with the Federal Reserve in its execution of market operations to carry out U.S. monetary policy, and (2) that participates for statistical reporting purposes in compiling data on activity in the U.S. Government securities market.

PRUDENT PERSON (PRUDENT INVESTOR) RULE. A standard of responsibility which applies to fiduciaries. In California, the rule is stated as "Investments shall be managed with the care, skill, prudence and diligence, under the circumstances then prevailing, that a prudent person, acting in a like capacity and familiar with such matters, would use in the conduct of an enterprise of like character and with like aims to accomplish similar purposes."

REPURCHASE AGREEMENT. Short-term purchases of securities with a simultaneous agreement to sell the securities back at a higher price. From the seller's point of view, the same transaction is a reverse repurchase agreement.

SAFEKEEPING. A service to bank customers whereby securities are held by the bank in the customer's name.

SECURITIES AND EXCHANGE COMMISSION (SEC). The U.S. Securities and Exchange Commission (SEC) is an independent federal government agency responsible for protecting investors, maintaining fair and orderly functioning of securities markets and facilitating capital formation. It was created by Congress in 1934 as the first federal regulator of securities markets. The SEC promotes full public disclosure, protects investors against fraudulent and manipulative practices in the market, and monitors corporate takeover actions in the United States.

SECURITIES AND EXCHANGE COMMISSION SEC) RULE 15C3-1. An SEC rule setting capital requirements for brokers and dealers. Under Rule 15c3-1, a broker or dealer must have sufficient liquidity in order to cover the most pressing obligations. This is defined as having a certain amount of liquidity as a percentage of the broker/dealer's total obligations. If the percentage falls below a certain point, the broker or dealer may not be allowed to take on new clients and may have restrictions placed on dealings with current client.

STRUCTURED NOTE. A complex, fixed income instrument, which pays interest, based on a formula tied to other interest rates, commodities or indices. Examples include inverse floating rate notes which have coupons that increase when other interest rates are falling, and which fall when other interest rates are rising, and "dual index floaters," which pay interest based on the relationship between two other interest rates - for example, the yield on the ten-year Treasury note minus the Libor rate. Issuers of such notes lock in a reduced cost of borrowing by purchasing interest rate swap agreements.

SUPRANATIONAL. A Supranational is a multi-national organization whereby member states transcend national boundaries or interests to share in the decision making to promote economic development in the member countries.

TOTAL RATE OF RETURN. A measure of a portfolio's performance over time. It is the internal rate of return, which equates the beginning value of the portfolio with the ending value; it includes interest earnings, realized and unrealized gains, and losses in the portfolio.

U.S. Treasury Obligations. Securities issued by the U.S. Treasury and backed by the full faith and credit of the United States. Treasuries are considered to have no credit risk and are the benchmark for interest rates on all other securities in the US and overseas. The Treasury issues both discounted securities and fixed coupon notes and bonds.

Treasury Bills. All securities issued with initial maturities of one year or less are issued as discounted instruments and are called Treasury bills. The Treasury currently issues three- and six-month T-bills at regular weekly auctions. It also issues "cash management" bills as needed to smooth out cash flows.

Treasury Notes. All securities issued with initial maturities of two to ten years are called Treasury notes and pay interest semi-annually.

Treasury Bonds. All securities issued with initial maturities greater than ten years are called Treasury bonds. Like Treasury notes, they pay interest semi-annually.

Yield to Maturity. The annualized internal rate of return on an investment which equates the expected cash flows from the investment to its cost.